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Off the Cuff Video
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Hi everyone, my name is Ian Fung, and I'm a Portfolio Manager at Empire Life Investments. I manage fixed income portfolios, and I thought I would provide a brief recap of one of the events of the summer that both fixed income and equity market participants had kept their eye on, which was US Federal Reserve Chair Powell's speech at the annual Jackson Hole Symposium in August.

Typically, Jackson Hole has been an event where the Federal Reserve has announced changes in thought process and approach. In fact, the Fed announced the new approach to inflation targeting of FAIT or, "Flexible Average Inflation Targeting" at this meeting last year.

Going into the event, market participants were looking for some guidance from the Fed about their intentions to taper the pace of asset purchases to remove some of the accommodation given to the market during the pandemic. In the weeks and months leading up to the meeting, some Fed Governors had talked about the need to begin talking about tapering.

Market participants were also looking for an update as to how much progress had been made towards the "substantial further progress" target with respect to the two objectives of the Fed, which are achieving maximum employment and price stability.

Lastly, market participants were looking for an update on the impact of the Delta variant of COVID-19 on the trajectory of the recovery.

At Jackson Hole, Powell re-iterated the goals of the Federal Reserve - achieving maximum employment, and price stability. He acknowledged that inflation had run up quickly, and that it was a cause for concern, but continue to think of it as transitory, given the lack of breadth in the components of the CPI and moderating inflation levels for components that had been affected by the pandemic such as used cars and commodities. In addition, longer term inflation expectations have remained stable, and global disinflationary forces like technology and an aging demographic have not disappeared overnight.

Substantial further progress has been made on the inflation front, but there is still some room to approach the substantial further progress target on the employment front. The Fed still views the labour market as one that still has substantial slack, along with lower labour force participation than in past recoveries. With those two elements in mind, the current pace of asset purchases will be maintained, but could start the reduction at the end of the year, if future employment reports continue to strengthen. The Delta variant was presented as a near-term risk to the outlook.

There were two important takeaways from his speech. First, there was an emphasis from the Fed on how there was no mechanical link between the timing and pace of tapering asset purchases, and the timing of rate hikes thereafter was important to communicating to the market that the Fed would not rush into a hiking cycle after tapering begins.

Powell also emphasized that history has shown that tightening monetary policy as a reaction to transitory inflation could do more harm than good, and could be harmful given the state of the labour market.

Second, the emphasis on waiting to have the employment picture confirmed by more hard data was a welcome one - as a more data-dependent Fed will allow for the employment figures to tell the story, and allows them to evaluate the progress of the Delta variant before making a decision.

Putting everything together, the speech was viewed as dovish by the market. Yields declined in the US immediately after, with the 5-year tenor leading the rally, leading to the curve steepening somewhat, and Canada rates followed in sympathy. One of the concerns heading into the meeting was that the economic progress made in the recovery so far was enough to pull forward the tapering of asset purchases, but the Fed eased that concern with its statements.

We're continuing to keep a close eye on inflation, employment, and other economic data over here, but wanted to give you all a brief update as to what the outcome of this year's Jackson Hole meeting was. I hope it was helpful and that you found it interesting, and thank you very much for your time.

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